

CITY OF POLK CITY, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
AND FINDINGS

JUNE 30, 2013

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City of Polk City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Heuertz	Mayor	January, 2014
Dan Lane	Mayor Pro Tem	January, 2014
Robert Mordini	Council Member	January, 2014
David Dvorak	Council Member	January, 2016
Ronald Anderson	Council Member	January, 2016
Jeff Walters	Council Member	January, 2016
Gary Mahannah	City Administrator	Indefinite
Debra Nabity	Finance Officer /Treasurer	Indefinite
Sharon Nickles	City Clerk	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Polk City

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Polk City as of June 30, 2013, and the respective changes in cash financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters- Supplementary Information and Other Information

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, Management Discussion and Analysis and the Budgetary Comparison information has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also included my report on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

February 25, 2014

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased by 9.97%, or \$450,843 from fiscal year 2012 to fiscal year 2013. Property, Tax incremental financing and other city tax receipts increased by \$367,582.
- Disbursements decreased by 16.6 % or \$782,102, in fiscal 2013 from fiscal 2012. Public safety, public works, and general government increased \$172,509, \$76,528 and \$137,062 respectively, while community and economic development, and capital projects decreased \$244,171 and \$920,410, respectively.
- The City's total cash basis net assets increased 30.06%, or \$895,080, from fiscal year 2012 to fiscal year 2013. Of this amount, the cash basis net position of the governmental activities increased \$1,043,537 and the cash basis net position of the business type activities decreased by \$148,457.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and support the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the receipts by source and disbursements by function.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes, local option sales taxes and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds, considered to be major funds of the City.

The required financial statements for governmental funds includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2,337,526 to \$3,381,063. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30th	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Services	\$ 522,178	\$ 373,447
Operating Grant, Contributions & Restricted Income	376,598	379,422
General Receipts:		
Property Taxes	900,682	865,408
Tax Incremental Financing	351,706	211,612
Local Option Sales Tax	2,688,640	2,496,426
Unrestricted Interest on Investments	123,139	115,074
Miscellaneous	9,835	80,546
Total Receipts	<u>4,972,778</u>	<u>4,521,935</u>
Disbursements:		
Public Safety	1,381,726	1,209,217
Public Works	465,306	388,778
Health & Social Services		2,569
Culture & Recreation	362,769	363,820
Community & Economic Development	85,706	329,877
General Government	690,176	553,114
Capital Projects	943,558	1,863,968
Total Disbursements	<u>3,929,241</u>	<u>4,711,343</u>
Change in cash basis net position before transfers	1,043,537	(189,408)
Transfers, net		<u>450,000</u>
Change in cash basis net position before transfers	1,043,537	260,592
Cash basis net position-beginning of year	2,337,526	2,076,934
Cash basis net position-end of year	<u>\$ 3,381,063</u>	<u>\$ 2,337,526</u>

Receipts by Source		Disbursements by Function	
Charges for Services	10.50%	Public Safety	35.17%
Operating Grants, Contributions & Restricted Income	7.57%	Public Works	11.84%
Property Taxes	18.11%	Culture and Recreation	9.23%
Tax Increment Financing	7.07%	Community & Economic Development	2.18%
Local Option Sales Tax	54.07%	General Government	17.57%
Unrestricted Investment Earnings	2.48%	Capital Projects	24.01%
Miscellaneous	.20%		

The City's total receipts for governmental activities increased by 9.97% or \$450,843. The increase in receipts was primarily the result of an increase in tax receipts and an increase in charges for services.

The total cost of all programs and services decreased by \$782,102 or 16.6%. The majority of this decrease is attributed to a reduction of spending on Capital Projects and Community and Economic Development.

The cost of all governmental activities this year was \$3,929,241 compared to \$4,711,343 last year. However, as shown in the Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was only \$3,037,216, because some of the cost (\$892,025) was paid by those directly benefited from the programs. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased from \$853,201 in fiscal year 2012 to \$892,025 in fiscal year 2013. The City paid for the remaining "public benefit" portion of governmental activities with \$3,037,216 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2013	2012
Receipts		
Program Receipts:		
Charges for Services:		
Water	\$ 502,387	\$ 477,556
Sewer	447,450	419,738
General Receipts:		
Unrestricted Interest on Investments	7,593	9,329
Total Receipts	957,430	906,623
Disbursements:		
Water	532,620	397,507
Sewer	269,473	184,723
Intra Fund Loan		
Transfers		450,000
WRA Debt & Capital Improvements	303,794	250,372
Total Disbursements	1,105,887	1,282,602
Change in cash basis net position	(148,457)	(375,979)
Cash Basis Net Position Beginning of Year	639,602	1,015,581
Cash Basis Net Position End of Year	\$ 491,145	\$ 639,602

Total business type activities receipts for the fiscal year were \$957,430 compared to \$906,623 last year. This increase was due to increased rates and increases usage by citizens. Total disbursements for the year decreased by 13.78% to a total of \$1,105,887. This decrease was the result of no transfers out in the current year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$3,381,063 an increase of \$1,043,537. This increase is attributable to an increase in receipts from Local Option Sales Tax, Charges for Services and Tax Incremental Financing.

- The General Fund cash balance increased by \$967,267 from the prior year total of \$2,425,567. This increase is attributable to an increase in receipts from property taxes, Local Option Sales Tax and Charges for Services.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$51,776 from the prior year total of \$159,514. The decrease is attributable to an increase in disbursements for street Maintenance and repairs.
- The Capital Projects Fund decreased \$143,558 from the prior year total of \$121,471. The decrease is attributable to disbursements for construction costs.
- The Urban Renewal Tax Increment Fund increased \$271,604 from the prior year total of \$598,241. The increase is a result of receipts in excess of disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$56,205 to \$132,604. This decrease is attributable to increased operating costs.
- The Sewer Fund cash balance decreased by \$92,252 to \$358,541, this balance decrease is attributable to continuing expenditure of a capital nature.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on March 11, 2013 and the second on May 28, 2013 both amendments resulted in an increase in both disbursements and receipts. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2013 the City had no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be the planning and timing of necessary and mandated improvements and upgrades to the City's water and sewer treatment plants.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Nabity, Assistant City Administrator-Finance Officer Polk City, and 112 3rd Street, PO Box 426 Polk City, Iowa 50226 or email dnabity@polkcity.org

City of Polk City, Iowa
Statement of Activities and Net Position
As of and for the year ended June 30, 2013

Exhibit A

Functions/Programs	Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			
Public safety	\$ 1,381,726	\$ 497,820	\$ 31,835
Public works	465,306	989	327,328
Health and social services			
Culture and recreation	362,769	23,369	10,684
Community and economic development	85,706		
General government	690,176		
Capital projects	943,558		
Total governmental activities	3,929,241	522,178	369,847
Business type activities			
Water	560,730	502,387	
Sewer	545,157	447,450	
Total business type activities	1,105,887	949,837	
Total	\$ 5,035,128	\$ 1,472,015	\$ 369,847

General Receipts

Property tax levied for
 General purposes
 Tax increment financing
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash basis net position

 Restricted - Expendable

 Urban Renewal purposes

 Streets

 Capital Projects

 Unrestricted

 Total cash basis net position

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis
Net Position

Governmental Activities	Business Type Activities	Total
\$ (852,071)	\$	\$ (852,071)
(136,989)		(136,989)
(328,716)		(328,716)
(85,706)		(85,706)
(690,176)		(690,176)
(943,558)		(943,558)
(3,037,216)		(3,037,216)
	(58,343)	(58,343)
	(97,707)	(97,707)
	(156,050)	(156,050)
\$ (3,037,216)	\$ (156,050)	\$ (3,193,266)

\$ 900,682	\$	\$ 900,682
351,706		351,706
2,688,640		2,688,640
15,571	7,593	23,164
124,154		124,154
4,080,753	7,593	4,088,346
1,043,537	(148,457)	895,080
2,337,526	639,602	2,977,128
\$ 3,381,063	\$ 491,145	\$ 3,872,208

\$ 869,845	\$	\$ 869,845
107,738		107,738
	358,541	358,541
2,403,480	132,604	2,536,084
\$ 3,381,063	\$ 491,145	\$ 3,872,208

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

Exhibit B

	General	Road Use Tax	Capital Projects	Urban Renewal Tax Increment	Total
Receipts					
Property Taxes	\$ 900,682	\$	\$	\$	\$ 900,682
Tax Increment Financing				351,706	351,706
Other City Tax- Local Option Sales Tax	2,688,640				2,688,640
Licenses and Permits	6,751				6,751
Use of Money and Property	117,535			5,604	123,139
Intergovernmental	42,519	327,328			369,847
Charges for Services	522,178				522,178
Miscellaneous	9,835				9,835
Total Receipts	4,288,140	327,328		357,310	4,972,778
Disbursements					
Operating					
Public Safety	1,381,726				1,381,726
Public Works	86,202	379,104			465,306
Health and Social Services					
Culture and Recreation	362,769				362,769
Community and Economic Development				85,706	85,706
General Government	690,176				690,176
Capital Projects			943,558		943,558
Total Disbursements	2,520,873	379,104	943,558	85,706	3,929,241
Excess (deficiency) of receipts over (under) disbursements	1,767,267	(51,776)	(943,558)	271,604	1,043,537
Other financing sources (uses)					
Operating transfers in			800,000		800,000
Operating transfers out	(800,000)				(800,000)
Total other financing sources (uses)	(800,000)		800,000		
Net change in cash balances	967,267	(51,776)	(143,558)	271,604	1,043,537
Cash balance - beginning of year	1,458,300	159,514	121,471	598,241	2,337,526
Cash balance - end of year	\$ 2,425,567	\$ 107,738	\$ (22,087)	\$ 869,845	\$ 3,381,063
Cash basis fund balances					
Restricted for:					
Urban renewal purposes	\$	\$	\$	\$ 869,845	\$ 869,845
Streets		107,738			107,738
Unassigned	2,425,567		(22,087)		2,403,480
Total cash basis fund balances	\$ 2,425,567	\$ 107,738	\$ (22,087)	\$ 869,845	\$ 3,381,063

See notes to financial statements

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

Exhibit C

	Water	Sewer	Total
Operating receipts			
Charges for service	\$ 502,387	\$ 447,450	\$ 949,837
Total operating receipts	<u>502,387</u>	<u>447,450</u>	<u>949,837</u>
Operating disbursements			
Business type activities	<u>532,620</u>	<u>269,473</u>	<u>802,093</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(30,233)</u>	<u>177,977</u>	<u>147,744</u>
Non-operating receipts (disbursements)			
WRA debt and capital improvements	(28,110)	(275,684)	(303,794)
Interest on investments	2,138	5,455	7,593
Total other financing sources (uses)	<u>(25,972)</u>	<u>(270,229)</u>	<u>(296,201)</u>
Net change in cash balances	(56,205)	(92,252)	(148,457)
Cash balances - beginning of year	188,809	450,793	639,602
Cash balances - end of year	<u>\$ 132,604</u>	<u>\$ 358,541</u>	<u>\$ 491,145</u>
Cash basis fund balances			
Restricted for WRA Capital Project	\$	\$ 358,541	\$ 358,541
Unrestricted	132,604		132,604
Total cash basis fund balances	<u>132,604</u>	<u>\$ 358,541</u>	<u>\$ 491,145</u>

See notes to financial statements.

City of Polk City, Iowa
Notes to Financial Statements
June 30, 2013

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Polk City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2013, the City paid the Metro Waste Authority \$38,843 for the Curb It Program.

In October 2009, the City entered into an agreement with the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) to become a voting member community and paid \$616,227 to join 16 other communities in that joint venture under the provisions of Chapter 28 of the Code of Iowa. The purpose of the WRA is to plan, construct, operate and manage regional sanitary sewer facilities. During the year ended June 30, 2013, the City paid the WRA \$97,560 for the City's share of the operating costs and \$150,691 for debt and existing capital improvements.

The City, in conjunction with eighteen other cities, created the Polk County Emergency Management Commission using a 28E agreement. The commission provides direction for planning, coordinating, training, and support of emergency management services.

In addition, the City participates in other jointly governed organizations that provide services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net assets. Net position is reported in the following categories/ components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate Fund Financial Statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is utilized to account for all tax increment financing collections and the repayment of tax increment financing including the low to moderate income family housing program.

The City reports the following major proprietary (enterprise) funds:

The Water Fund accounts for the operation, maintenance and capital projects of the City's water system.

The Sewer Fund accounts for the operation, maintenance and capital projects of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Polk City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost- reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost- reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable- Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted- Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned- Amounts the Council intends to use for specific purposes.

Unassigned- All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

2/ Cash and Pooled Investments

The City's deposits, at June 30, 2013, were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3/ Tax Increment Financing

The Urban Renewal Tax Increment fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. In February 2008, the City adopted an affordable housing plan to be implemented through 2015.

In a prior year, the City entered into an agreement which required the developer to provide street and utility improvements in an urban renewal area to produce a taxable valuation of not less than \$1,200,000. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a twenty year period but not to exceed \$500,000. During the year ended June 30, 2013, \$30,496 of tax increment taxes were rebated.

In April, 2013, the City and Twelve Oaks, LLC entered into an agreement which requires the developer to make certain public improvements. The City will pay the tax increment financing taxes to the developer on the date the taxes become available and continuing for a total of ten fiscal years.. The total payments shall not exceed \$425,400. Each payment to the developer shall be reduced for the minimum amount required under state law to be set aside, from the tax increment financing taxes, for low and moderate income families.

In April 2013, the City entered into an agreement with Polk City Commercial Center, LLC which requires the developer to complete a building and site improvements which will produce a taxable valuation of not less than \$450,000. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a twenty year period but not to exceed \$ 200,000. Since the incremental increase in property values will not be on the tax rolls until 2014 , no tax increment taxes were rebated.

In January, 2013, the City entered into two economic development grants which require the Fareway Stores, Inc to purchase an existing building plus construct minimum improvements of \$2,000,000. Each grant is subject to annual appropriation by the City Council and will not constitute a legal indebtedness of the City.

For the purchase grant, the City may appropriate and make payments totaling \$520,000 plus 3% interest until December 1, 2015. The payment will be made from the tax increment financing taxes collected in the urban renewal area where the project is located.

For the improvement grant, the City will use the tax increment financing taxes resulting from the improvements to pay the developer, beginning on the date the taxes become available and continuing for fifteen years. The total payments shall not exceed \$525,000.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$99,283, \$82,263, and \$73,353, respectively, equal to the required contributions for each year.

5/ Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 18 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employee, in that same age category.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The premiums under the plan are age based on the employee or retiree's age. For the year ended June 30, 2013, the City contributed \$122,042 and plan members eligible for benefits contributed \$ 14,973 to the plan.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2013, primarily relating to the General Fund, is \$53,000. The liability has been computed based on rates of pay in effect at June 30, 2013.

7/ Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Polk City's contributions to the Pool for the year ended June 30, 2013 were \$53,707.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions; however, the refund is reduced by the amount of capital contributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdictions. The City has executed a Worker's Compensation coverage agreement with the Association which extends through June 30, 2013 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2013, the City paid worker's compensation insurance premiums of \$63,849 to the Association.

8/ Commitments

The City entered into contracts for various public improvements. At June 30, 2013, the remaining commitments on these contracts approximated \$974,000.

In addition, as part of the project to expand the trunk sewer lines to Polk City and connect to the WRA facilities, the City has agreed with Polk County and the City of Ankeny to participate in a joint venture under Chapter 28E and to make annual payments to Polk County for Polk City's share of the project costs. As of the date of this report, the total project has not been completed but the City's total capital project costs, including interest on the debt used by the joint venture to finance the costs, are estimated to be \$18,000,000. The City is committed to pay an estimated \$560,000, annually, until 2042.

The City has agreed to provide sanitary sewer service to the Knapp property, Tournament Club of Iowa property and Big Creek State Park to further develop those properties. The developer has agreed to construct the facilities and the City's commitment for the project is \$533,664.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Interfund Transfers

The interfund transfer for the year ended June 30, 2013 is as follows:

	<u>Transfer To</u>
	<u>Capital Projects</u>
Transfer from General	<u>\$ 800,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

11/ Water Rates

In 2006, the City paid Des Moines Water Works \$665,000 for the right to pay lower water rates over forty years, based on a 350,000 gallon per day consumption. The rates will be based on annual cost studies conducted by the Des Moines Water Works. Initially such rates are \$.90 per 1,000 gallons.

12/ Interfund Loan

During the year ended June 30, 2006, the General Fund loaned \$665,000 with no interest to the Water Fund. At June 30, 2013, the loan balance totaled \$65,000.

13/ Deficit Balance

The Capital Projects Fund had a deficit balance of \$22,087 at June 30, 2013. The deficit balance was a result of project costs incurred prior to the transfer of funds from the General Fund. A transfer will be made in the following fiscal year to eliminate the deficit.

14/ Subsequent Events

The City has placed a 7% hotel and motel tax referendum on the ballot in the general election to be held on November 5, 2013.

City of Polk City, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2013

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 900,682	\$	\$ 900,682
Tax increment financing	351,706		351,706
Other city tax	2,688,640		2,688,640
Licenses and permits	6,751		6,751
Use of money and property	123,139	7,593	130,732
Intergovernmental	369,847		369,847
Charges for service	522,178	949,837	1,472,015
Special assessments			
Miscellaneous	9,835		9,835
Total Receipts	4,972,778	957,430	5,930,208
Disbursements			
Public safety	1,381,726		1,381,726
Public works	465,306		465,306
Health and social services			
Culture and recreation	362,769		362,769
Community and economic development	85,706		85,706
General government	690,176		690,176
Capital projects	943,558		943,558
Business type activities		1,105,887	1,105,887
Total Disbursements	3,929,241	1,105,887	5,035,128
Excess (deficit) of receipts over disbursements	1,043,537	(148,457)	895,080
Balance - beginning of year	2,337,526	639,602	2,977,128
Balance - end of year	\$ 3,381,063	\$ 491,145	\$ 3,872,208

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 878,388	\$ 878,388	\$ 22,294
35,000	30,000	321,706
2,419,978	2,708,618	(19,978)
82,950	147,900	(141,149)
109,050	136,450	(5,718)
323,000	364,750	5,097
997,750	1,249,100	222,915
1,100	8,000	(8,000)
227,500	340,150	(330,315)
5,074,716	5,863,356	66,852
1,341,835	1,429,685	47,959
485,814	501,120	35,814
5,000	1,000	1,000
367,220	386,190	23,421
535,000	180,000	94,294
578,910	717,020	26,844
1,335,000	1,529,300	585,742
970,400	1,196,362	90,475
5,619,179	5,940,677	905,549
(544,463)	(77,321)	972,401
1,440,064	3,010,250	(33,122)
\$ 895,601	\$ 2,932,929	\$ 939,279

City of Polk City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$321,498. The budget amendments are reflected in the final budgeted amounts.

City of Polk City, Iowa
Schedule of Receipts by Source and Disbursements
All Government Funds
For the Last Nine Years

	2013	2012	2011	2010
Receipts				
Property taxes	\$ 900,682	\$ 865,408	\$ 815,217	\$ 754,431
Tax increment financing	351,706	211,612	201,167	187,303
Other city tax	2,688,640	2,496,426	1,852,242	2,407,497
Licenses and permits	6,751	4,212	71,554	81,001
Use of money and property	123,139	115,074	126,698	123,873
Intergovernmental	369,847	375,210	347,900	310,792
Special Assessments				46,319
Charges for service	522,178	373,447	195,459	150,842
Miscellaneous	9,835	80,546	46,040	43,668
Total	<u>\$ 4,972,778</u>	<u>\$ 4,521,935</u>	<u>\$ 3,656,277</u>	<u>\$ 4,105,726</u>
Disbursements				
Operating				
Public safety	\$ 1,381,726	\$ 1,209,217	\$ 831,653	\$ 822,826
Public works	465,306	388,778	486,582	437,051
Health and human services		2,569		4,681
Culture and recreation	362,769	363,820	423,770	394,666
Community and economic development	85,706	329,877	146,792	83,972
General government	690,176	553,114	621,780	612,431
Debt service				
Capital projects	943,558	1,863,968	1,758,427	1,756,896
Total	<u>\$ 3,929,241</u>	<u>\$ 4,711,343</u>	<u>\$ 4,269,004</u>	<u>\$ 4,112,523</u>

See accompanying independent auditor's report.

Schedule I

2009	2008	2007	2006	2005
\$ 716,363	\$ 672,673	\$ 660,567	\$ 652,778	\$ 541,190
165,570	139,326	89,476	38,898	1,019
1,839,576	1,837,249	1,618,377	886,977	1,161,315
64,846	120,258	145,951	336,109	84,345
116,930	194,813	109,141	163,269	142,737
294,806	355,754	1,095,037	301,478	332,843
		1,674,518		
156,631	105,246	92,250	97,588	148,896
71,491	81,185	52,628	78,644	377,689
<u>\$ 3,426,213</u>	<u>\$ 3,506,504</u>	<u>\$ 5,537,945</u>	<u>\$ 2,555,741</u>	<u>\$ 2,790,034</u>
\$ 825,688	\$ 1,197,167	\$ 769,747	\$ 641,447	\$ 695,097
611,167	311,412	410,598	542,564	376,903
	7,500		12,081	6,519
340,042	352,076	389,241	276,196	296,841
154,600	22,500	10,000	41,466	15,436
572,733	444,456	439,144	792,342	342,946
				375,000
857,113	1,184,008	2,224,242	1,364,368	2,306,711
<u>\$ 3,361,343</u>	<u>\$ 3,519,119</u>	<u>\$ 4,242,972</u>	<u>\$ 3,670,464</u>	<u>\$ 4,415,453</u>

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon as dated below. My report expressed unqualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Polk City's internal control over financial reporting as a basis for designing my auditing procedures to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, I have identified a deficiency in internal control, described in Part I of the accompanying Schedule of Findings that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Polk City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to Findings

The City of Polk City's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 25, 2014

Pollard and Company P.C.

City of Polk City, Iowa
Schedule of Findings
Year Ended June 30, 2013

PART I -Findings Related to the Financial Statements

Internal Control Deficiencies

I-A-13 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted the former finance officer had, during most of the year, control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned

With the hiring of the new finance officer, we began reviewing the internal control procedures and segregation of duties and have begun to implement procedures to further segregate duties to the extent possible.

Conclusion

Response accepted. The City should segregate duties to the extent possible. Administrative personnel should provide additional control through review of financial transactions and reports.

PART II- Other Findings Related to Statutory Reporting

II-A-13 Questionable Disbursements

I noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-B-13 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-13 Business Transactions

There were no business transactions between the City and City officials or employees during the year.

II-D-13 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-E-13 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-F-13 Deposits and Investments

Deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-G-13 Urban Renewal Annual Report

The urban renewal annual report was properly approved and certified to the Iowa Department of Management and no exceptions were noted.

II-H-13 Financial Condition

The Capital Projects Fund had a deficit balance of \$22,087 at June 30, 2013.

Recommendation

The City should eliminate the deficit.

Response

The deficit was a result of construction costs incurred prior to a transfer from the General Fund which was made in the subsequent year.

Conclusion

Response accepted.